

Milk Regulation Board Study of the Connecticut Milk Industry

Report to the Environment Committee

April 2006

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Introduction

The primary mission of the Milk Regulation Board is summed up in section 22-133 of the Connecticut General Statutes. "To assure the consumers of the state milk products of at least standard quality, and to assure to the residents of Connecticut an adequate and regular supply of such milk at all times, the Milk Regulation Board shall adopt regulations in accordance with the provisions of chapter 54, which may include, but not be limited to, definitions, standards of identity, production, transportation, processing, handling, sampling, examination, grading, labeling, regarding and sale of milk and milk products....."

The Milk Regulation Board is currently composed of one member from the retail sector, two members who are dairy farmers, two members who process milk, two members who have no financial interest in the milk industry, one member who is the Commissioner of Public Health's designee and the Commissioner of Agriculture who is the Milk Regulation Board chairperson.

Public Act 05-130 expanded and charged the Milk Regulation Board with conducting a comprehensive study of the dairy industry in the state. The study was to include the costs of milk production, the ability of Connecticut dairy farmers to meet the milk supply needs of the state, regional milk price equity and milk price issues related to dairy farmers, processors, retailers and consumers.

To meet our goal the Milk Regulation Board solicited testimony from various stakeholders and experts in the milk industry. In addition to these experts, the Milk Regulation Board consulted the University of Connecticut, Food Marketing Policy Center. The Connecticut Department of Agriculture (DoAg) provided research support.

On September 28, 2005 the Milk Regulation Board held a special meeting to hear testimony from the production, processing and retailing sectors of the milk industry. Additionally the board heard testimony from the DoAg, Bureau of Land Preservation.

On November 2, 2005 the Milk Regulation Board met to receive written testimony and explored milk pricing systems found in northeastern states.

Legislative History

In 1990 a Legislative Blue Ribbon task Force reported that the decline of dairy farms was "steep". At that time there were 367 dairy farms remaining in the state down from 663 in 1980. The 367 remaining farms produced more than 500 million pounds (58.1 million gallons) of milk annually. The average price farmers received for their milk in 1989 was \$14.20 per hundredweight (cwt) or \$1.22 per gallon.

In 1991 PA 91-312 established a system of milk prices, premiums and fees designed to provide a milk price to farmers that covered the cost of production. This solution was short lived and was phased out because of objections from processors and potential lawsuits based upon interstate trade issues. The Northeast Dairy Compact was being considered by congress to provide a regional solution to milk pricing.

In 1993 Public Act 93-320, authorized Connecticut to participate in the Northeast Interstate Dairy Compact. The Northeast Dairy Compact was established in an effort to restore the authority of the six New England states to set prices for Class 1 (beverage milk) fluid milk sold in the region. The Northeast Interstate Dairy Compact was voted on and authorized by the United States Congress. The New England states determined that the dairy industry is the dominant agricultural activity of the northeast. Dairy farms, and associated suppliers, marketers, processors and retailers are each an integral part of the region's economy. Dairy farmers and local processors ability to provide a stable, local supply of milk is a matter of importance to the health and welfare of the region. Assurance of a fair and equitable price for dairy farmers ensures their ability to provide milk to the market as well as encouraging the vitality of the northeast economy and preserving open space. During the life of the compact the class 1 price of milk was set at \$16.94 per hundredweight (cwt) (a hundredweight equals 11.6 gallons) of milk. The compact worked well and several additional states voted to join it or were considering joining the compact (or a similar southern compact) by 2000. Congress chose not extend the compact's approval and the compact expired September 30, 2001.

In 2003, the legislature considered but did not pass SB 852, AN ACT CONCERNING THE FAIR PRICING OF MILK, which would have required the Milk Regulation Board, beginning July 1, 2003, to review annually the state's milk market and annually to determine October 1 whether (1) milk is affordable to state consumers, (2) there are enough retail outlets for it, (3) sufficient processing capacity exists for the state's needs, and (4) farmers are adequately paid for it.

In 2004 the legislature considered but did not pass HB 5642, AN ACT CONCERNING THE MILK REGULATION BOARD, that would have required the Commissioner of Agriculture to adopt regulations that would establish a minimum price paid to farmers by dealers.

In 2005 the legislature considered but did not pass SB 1361, AN ACT CONCERNING SOUTHERN NEW ENGLAND MILK PRICING, that would have required the Commissioner of Agriculture to adopt regulations establishing a minimum price to be paid to producers of milk and to authorize cooperation in establishing a common program of uniform administration of milk prices among states in the region.

There are numerous examples of legislation, hearings and committee testimony that clearly show the Connecticut legislature and the people of Connecticut have supported efforts to stabilize farm milk prices and improve dairy farm viability.

Today's Situation

There are 169 commercial dairy farms in Connecticut, down from the 367 reported in the 1990 Legislative Blue Ribbon Task Force report, *Milk Today, Gone Tomorrow*. The remaining dairy farms produce approximately 390 million pounds (45.5 million gallons) of milk each year. About 70 million gallons (602 million pounds) of milk is consumed in Connecticut each year. The average price farmers received for their milk in 2005 was \$15.67 per hundredweight (cwt) or \$1.40 per gallon.

During the same time period, 1990 to 2005 we lost a considerable amount of in state processing capacity. In 1990, 8 Connecticut milk plants, had a processing capacity of 3.2 million pounds per day. Today, 5 Connecticut milk plants have a combined capacity of 1.85 million pounds of milk per day, and almost 70% of that capacity is in 1 milk plant. We did not include our small producer/dealer dairies in these figures.

In 2002 and 2003, the price received by Connecticut Dairy Farmers fell to near 20 year lows. As shown by in figure 1 below. To convert cwt (hundredweight) to gallons, divide the cwt price by 11.6, the number of gallons in a cwt. A per. cwt price of \$12.00 = \$1.03/gallon, \$14.00/cwt = 1.20/gallon.

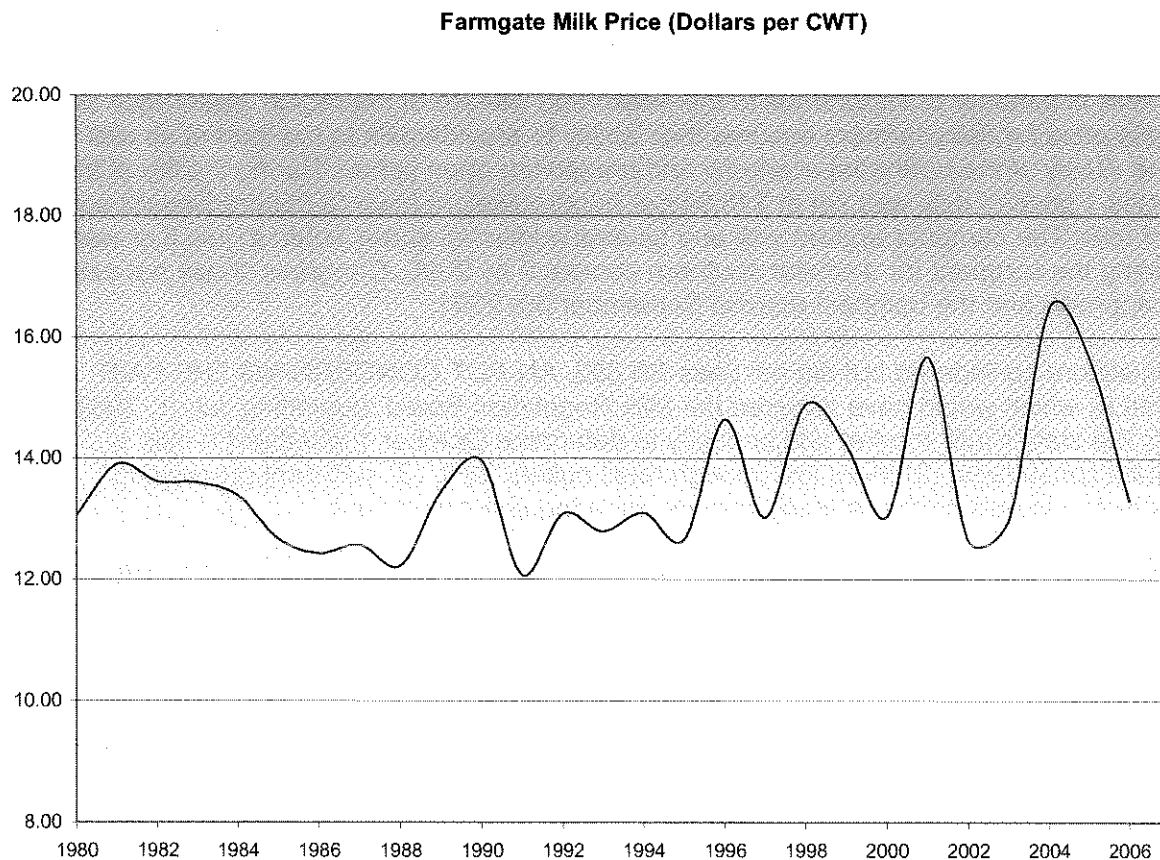


Figure 1: Source: CT Department of Agriculture

Milk prices rebounded in 2004 then fell off in 2005 while energy prices skyrocketed (figures 3 & 4). Based on USDA and industry estimates, the outlook for 2006 is for milk prices to average \$2.35 per cwt less than 2005 levels. The forecasts indicate that milk prices could fall to near the record lows encountered in 2002.

The average price of milk received by Connecticut dairy farmers in 1980 was \$13.06/cwt, that price should have been 31.32/cwt in 2005 when adjusted for inflation, using U.S. Bureau of Labor Statistics inflation data. Adam N. Rabinowitz a research assistant with the University of Connecticut Food Marketing Policy Center confirmed our calculations of the inflation adjusted price of milk.

The figure below contrasts recent retail and farm gate milk price trends.

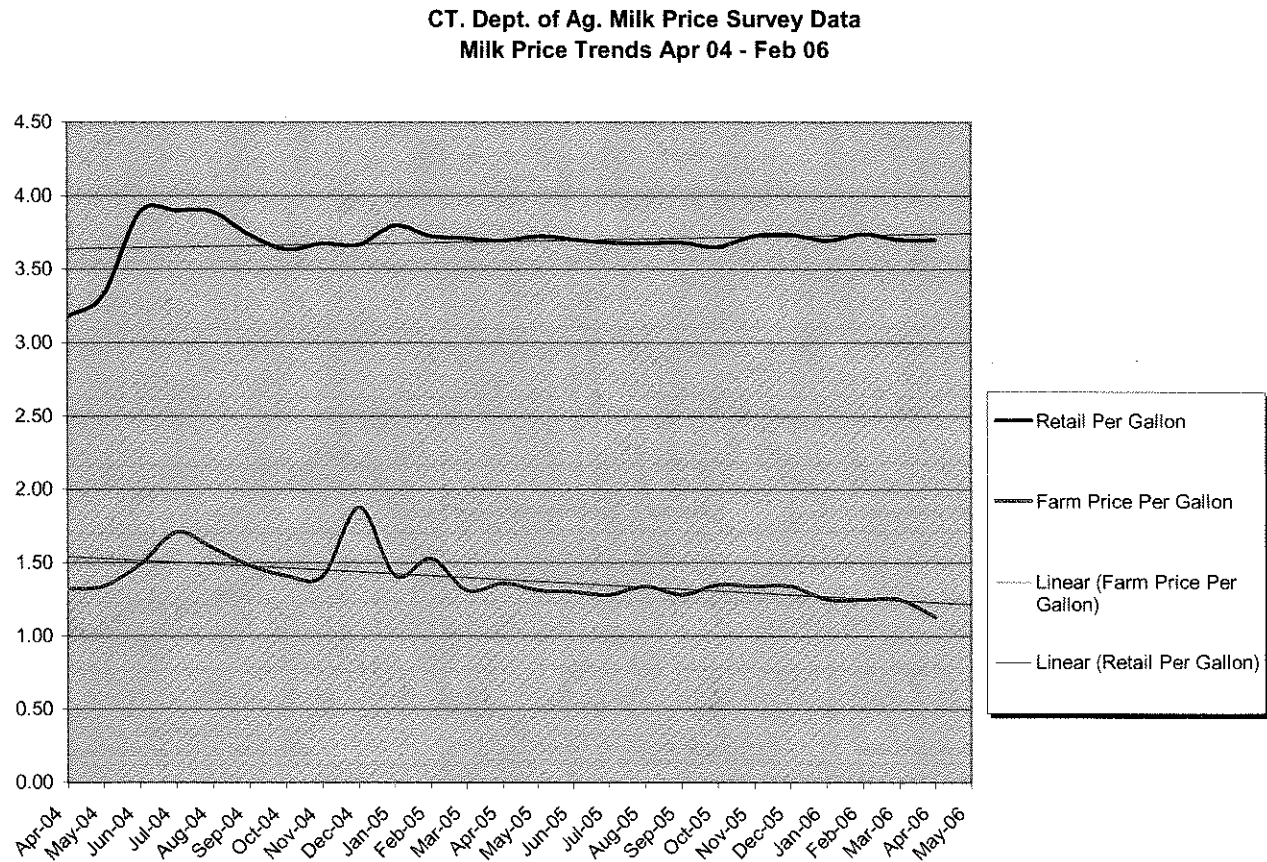


Figure 2: Connecticut Department of Agriculture Milk Price Survey

<http://www.ct.gov/doag/cwp/view.asp?A=1367&Q=259108>

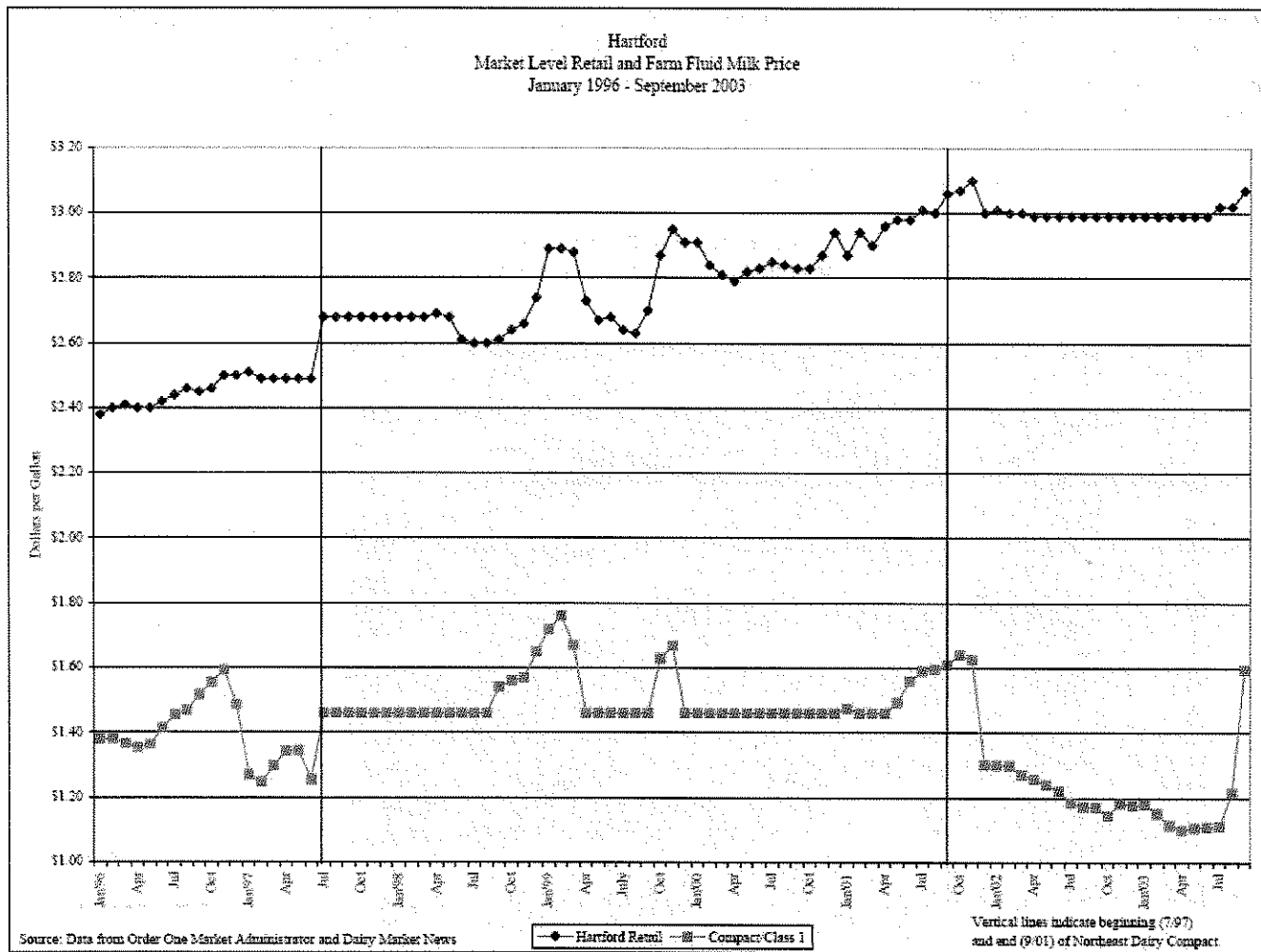


Figure 3: University of Connecticut Food Marketing Policy Center

During the period the Northeast Dairy Compact was active (9/97 – 9/01), Dr. Ronald W. Cotterill and his research staff at the University of Connecticut Food Marketing Policy Center have shown that the retail price of milk remained steady and even increased slightly relative to the cost of the principal raw material. Retail Milk Prices in New England, New York, and Seattle: An Unresolved Issue Adam N. Rabinowitz, Matthew Schwane, and Ronald W. Cotterill September 23, 2003.
(<http://www.fmpc.uconn.edu/research/milk/>)

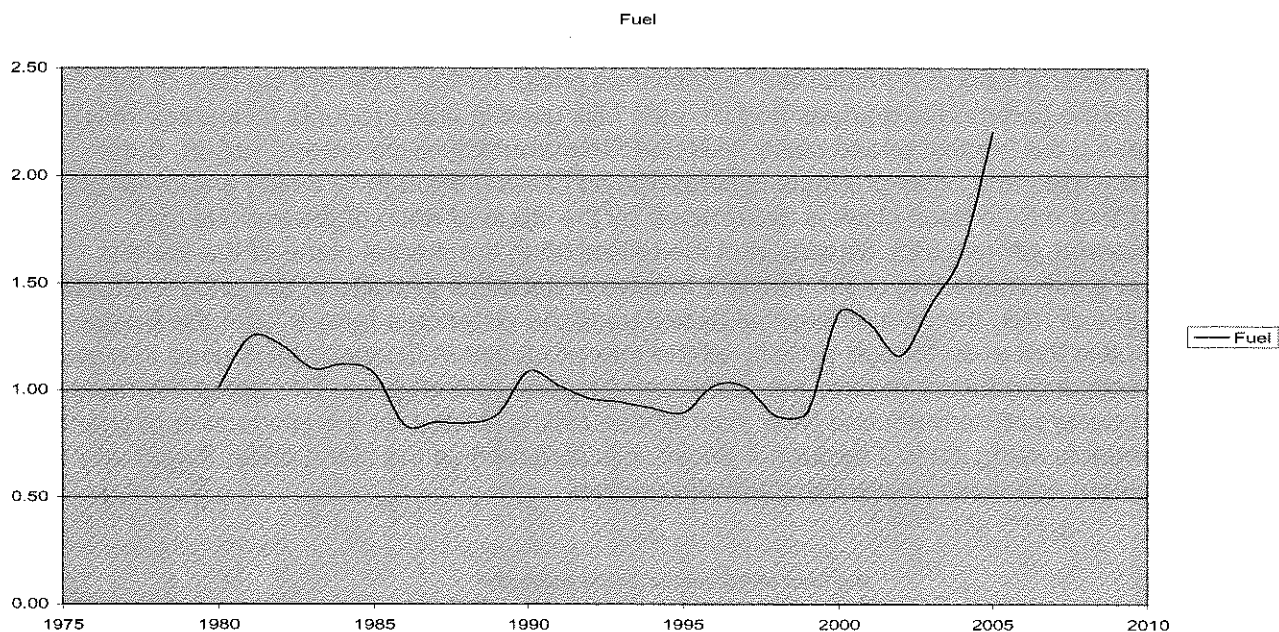


Figure 4: Fuel Price using U.S. Bureau of Labor Statistics data

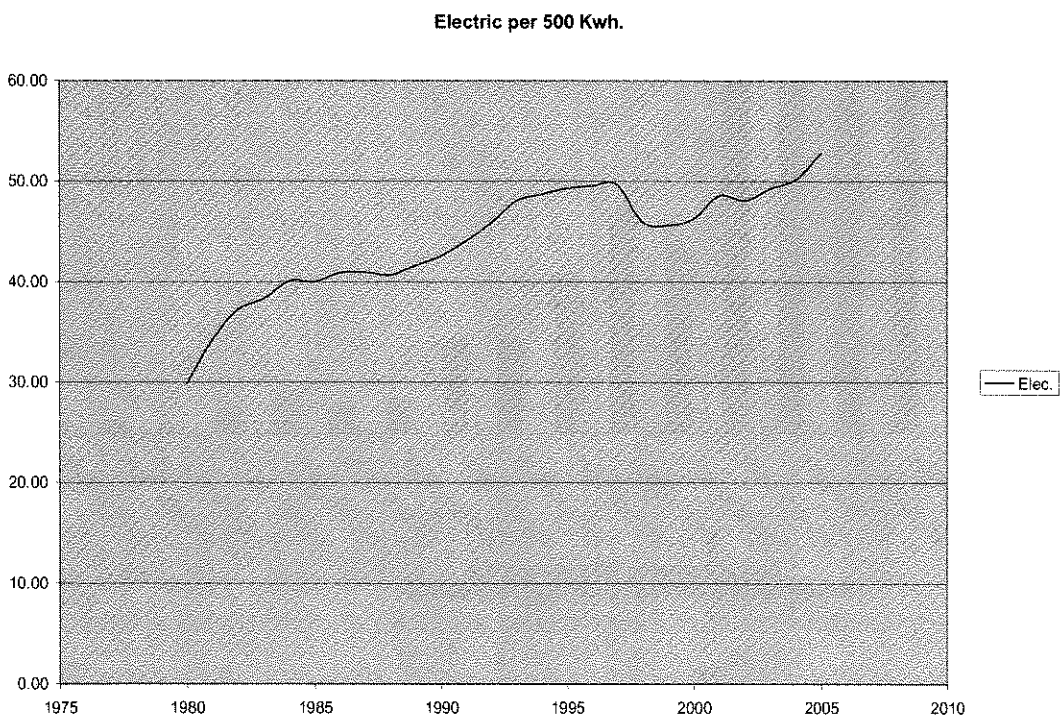


Figure 5: Electric Price using U.S. Bureau of Labor Statistics data

Figures 4 and 5 show recent trends in energy costs. The rising cost of energy will also translate into higher fertilizer, grain concentrate, and trucking costs.

One compelling example of the recent spike in energy costs is the cost farmer's bear to ship their milk to processing plants. The average cost to ship 100 pounds of milk was 67 cents in 1996, in 2001 it was 78 cents, today it costs on average 92 cents to ship each 100 pounds of milk to processors. Put another way, the remaining 169 dairy farmers will spend 560,000 dollars more in 2006 to ship their milk to processors than they did in 2001.

Dairy farmers are in a unique quandary. Producer milk prices are set by the Federal Market Administrator (the Northeast is in Order 1) but producers have little control of the costs of inputs. The price a dairy farmer receives does not reflect nor is it tied in any significant way to the cost of production. The Federal Market Administrator establishes prices for four different classes of milk based upon the prices in the commodity markets and its use. Milk used in fluid products (beverage milk) is classified as Class I, the highest priced class. Milk used to manufacture ice cream, yogurt, butter, cheese, nonfat dry milk, and other products is classified as Class II through IV which are lower-priced classes. The price of milk in each class is determined by the value of each of the various milk components (butterfat, protein etc). Based upon the utilization in the market place of the various classes of milk in a milk marketing order, farmers receive a statistical average of the price established for the four classes of milk, minus a differential based upon the distance a farm is from the Boston market. The result is that even though virtually all the milk produced in Connecticut is used in class 1 products, Connecticut producers receive the statistically uniform (blend) price. Of course the reverse is true, Order 1 producers in Vermont and New York whose milk is utilized for the production of cheese and other by-products using class 2 through 4 priced milk also receive the blend price. Regionally the federal order system equalizes prices dairy farmers receive.

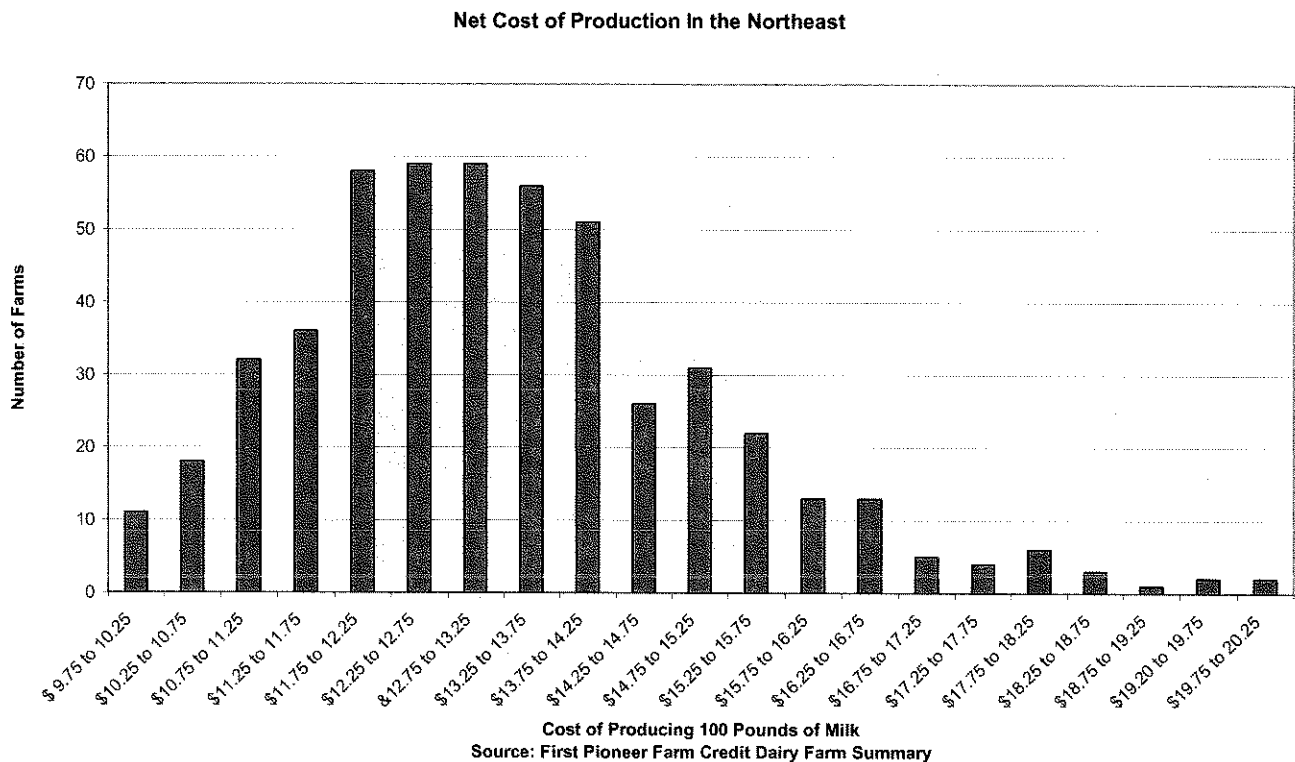


Figure 8: First Pioneer Farm Credit

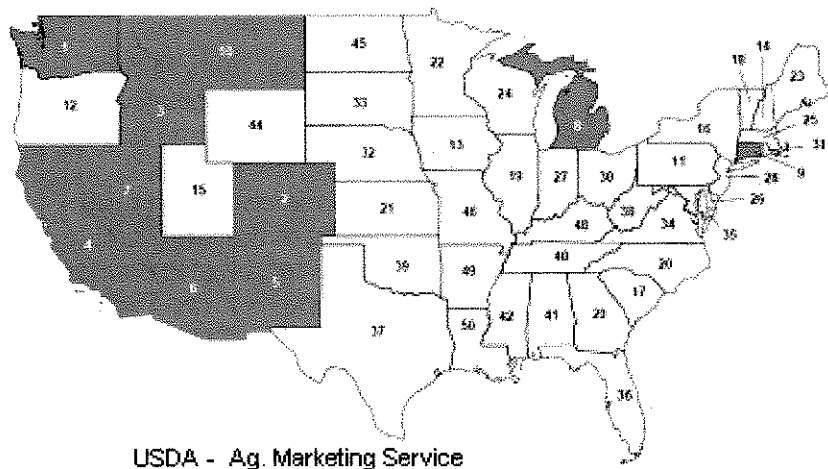
First Pioneer Farm Credit the agency that provides much of the financing to northeast agriculture provided the board with cost of production figures for the northeast. As we can see the majority of producers fall in the \$11.25 to \$15.85 per. cwt range. (.96 to 1.36 per gallon). Agri-Mark, Inc. (a Northeast dairy cooperative) economist Robert Wellington puts the average northeast cost of production at \$15.40/cwt.

Figure 1, page 4, shows recent prices received by dairy farmers for their milk.

The Connecticut Dairy Industry, Value and Land Use

Connecticut Dairy farmers produce enough milk to satisfy approximately 60% of the demand for fluid milk consumed in the state, the actual amount of Connecticut produced milk sold in the Connecticut market is unknown. A significant amount of milk produced in Connecticut is transported and processed out of state. We estimate that approximately 40% of milk consumed in Connecticut was produced in Connecticut. Packaged milk consumed in Connecticut comes from many sources all across the country, even internationally. In 2004 the Connecticut dairy farmers received 65.9 million dollars for milk they produced. The milk sold at retail in Connecticut in 2004 was valued at approximately 255 million dollars.

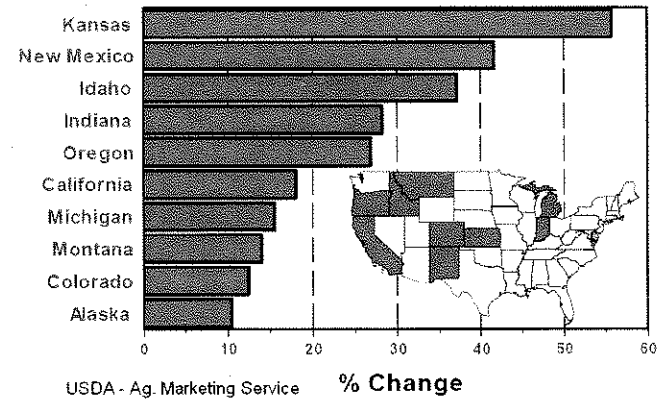
2001 Milk Production Per Cow Ranking
Top Ten States Highlighted



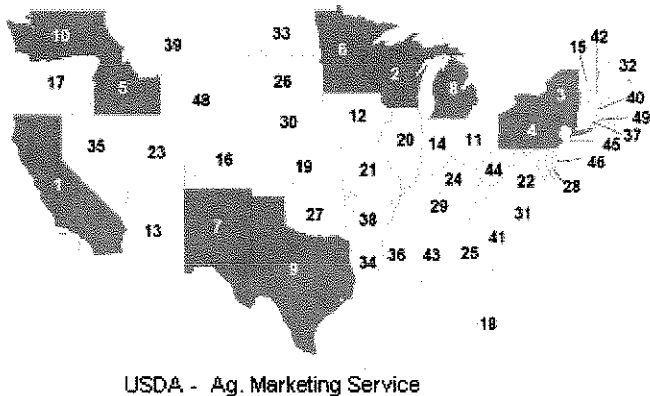
There are approximately 20,000 dairy cows in Connecticut. The average Connecticut dairy farm has approximately 115 milking aged animals and 60 young stock (replacements). Connecticut dairy farm sizes, range from 2 to 750 milking animals. In contrast some dairy farms in New York and Pennsylvania, and the western states exceed 4,000 milking cows and a few exceed 10,000 milking cows.

1998 - 2003

Largest Per Capita Increases



2003 Milk Production Ranking
Top Ten States Highlighted

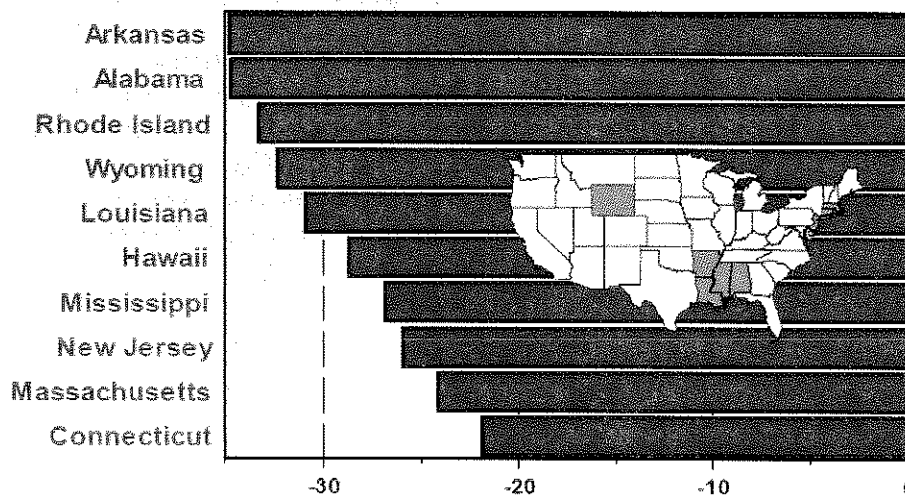


Connecticut dairy farmers own and/or rent approximately 83 thousand acres, approximately 44 thousand acres are used for crops. According the Working Land alliance 51% of Connecticut farmland is in dairy or dairy support, Connecticut is losing 7,000 to 9,000 acres of land in farms to other uses every year and owners of farmland and forests pay more in local taxes than it costs local government to service their properties.

Data from the DoAg Farmland Preservation Program show that 37 dairy farms have been preserved. An additional 30 dairy farms use land that has been preserved. The total amount of preserved land utilized by dairy farmers is estimated to be 10,500 acres of the total 30,312 acres of preserved land.

The Connecticut dairy industry provides jobs to many individuals beside the owner operators of dairy farms. Dairy employment can range from summer employment for young workers, to full time staff devoted to managing these businesses. Employment in related industries such as fertilizer, feed mills, equipment suppliers, veterinarians and veterinary staff, and those employed by the milk processors is dependent upon dairy farms. It is difficult quantify the exact number people employed directly and in related industries. The best estimate we have is that dairy and related industries employ about 2,200 full and part time individuals.

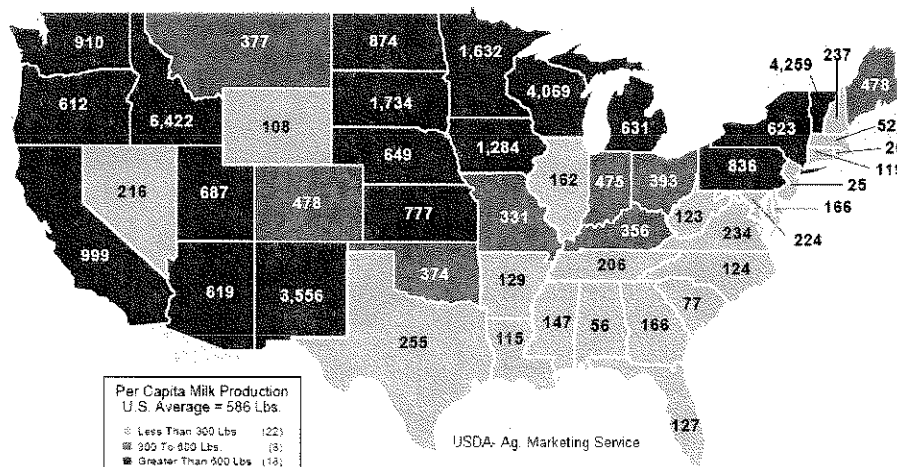
1998 - 2003 Largest Production Decreases



Ensuring dairy farmer profitability not only is a tool to keep land from being developed, it preserves jobs in rural parts of the state and provides a certain amount of food security. While it is unrealistic to strive for total self-sufficiency in food, local farms can reduce the impact of unexpected events and contributes to the freshness of foods found in our local markets.

USDA Ag. Marketing S

2003 Per Capita Milk Production



Per capita milk consumption is estimated to be 200 lbs. (23 gallons) per year.

September 28, 2005 Public Hearing

On September 28, 2005 the Milk Regulation Board held a special public meeting to solicit testimony from all sectors of the dairy industry.

Dairy farmers provided testimony that their ability to continue in business and the survival of supporting industries was at grave risk. Herman Weingart spoke about maintaining a critical mass of dairy farmers so that products and services such as grain supplies, fertilizer, seed corn, veterinary services, equipment and maintenance services remain cost effective and available.

Grace Nome representing the Connecticut Food Association spoke about her association's wish to preserve dairy farms. She stated that it was her preference that the state directly support dairy farmers.

Alexander Guida III representing Guida's Dairy spoke about farmers taking their own initiative to create markets for their products. He also spoke about the intense competition between processors especially independent processors such as his and large nationwide processors that control several large facilities in the northeast.

Bob Wellington an economist with Agri-Mark, Inc. spoke about Maine's system and the cost of production in Connecticut. Mr. Wellington stated that his research placed the costs of producing milk at about \$15.40 per hundredweight in the northeast. Mr. Wellington provided the board with his price forecast for 2006. Mr. Wellington stated that in 2004 dairy farmers had a profitable year, in 2005 profits and costs should be in balance for most dairy farmers and 2006 would bring a deficit year again to northeast dairy farmers.

Dan Smith, former executive director and general counsel of the Northeast Dairy Compact Commission spoke about interstate trade law. His position was that anything done must be done to benefit consumers. What cannot be done is to attempt to benefit producers in the region to the detriment of producers outside the region. He believed that states could work in parallel and not violate the Interstate Commerce Clause.

Mr. Jack Tiffany, a dairy farmer from Old Lyme, spoke about establishing a minimum cash price for milk. He proposed that the state make up the difference between the price received through the federal order and a price that included a reasonable profit. Mr. Tiffany felt that this needed to be meaningful and would have to provide at least \$1.00 per. cwt over the current price. Funding should come either from the marketplace or from the general fund.

Written testimony was solicited and provided by individuals and organizations. The overwhelming sentiment gathered from the oral and written testimony was that dairy farming was a valuable enterprise that ought to be supported. Connecticut is at a crossroads. The products and services needed to support our dairy industry are dependent on having enough businesses demanding these products and services. We are at a point where the products and services may become unavailable or too expensive to use. Universally, it was made clear that dairy farmers maintain and provide stewardship of much of Connecticut's agricultural lands and landscape.

Attached are the minutes from the September 28, 2005 special meeting.

An archived video of Milk Regulation Board Special Meeting can be viewed on the Connecticut Network (CT-N). http://ctnv1.ctn.state.ct.us/M/milk_board_9-28-05.wmv

State and Federal Programs

The Milk Regulation Board asked the department to report on existing federal and state programs designed to mitigate low farm gate milk prices.

MILC

The chief federal program to directly support dairy farmers is the Milk Income Loss Contract (MILC). The MILC program is administered by the Farm Service Agency and financially compensates dairy farmers when the class 1 milk price falls below a specified level. The program was first authorized by the 2002 Farm Bill. Payments are issued up to a maximum of 2.4 million pounds of milk produced during a fiscal year. MILC payments are made on a monthly basis when the federal class 1 milk price falls below \$16.94 per hundredweight (cwt). When the federal class 1 milk price exceeds \$16.94, no payments are made and production for that month did not count towards a dairy farm's maximum eligible production. Because not all milk produced is used for class 1 purposes payments are 45 percent of the difference between \$16.94 and the federal class 1 milk price for that month.

The 2006 Federal budget reconciliation act contains an extension of MILC until 2007. The payment rate was reduced from 45 to 34 percent of the difference between \$16.94 and the federal class 1 milk price.

Interestingly the \$16.94/cwt class 1 price is the exact same price the Northeast Dairy Compact Commission used.

Maine

The Maine Milk Commission is comprised of five members, all of whom are appointed by the Governor and serve a term of 4 years. The board is comprised of the Commissioner of Agriculture, ex-officio and the remaining four members who have no official business or professional connection or relation with any segment of the dairy industry.

The Maine Milk Commission is financed by a 5¢ per hundredweight fee on all milk purchased or sold by licensed dealers with this fee divided equally between producers and dealers. The Commission receives no state tax monies.

Among the specified powers granted by the Maine legislature, the Commission has the authority to set minimum prices paid to producers as well as minimum retail and wholesale milk prices. The Milk Commission is authorized to audit dealers' books and to determine the utilization of all milk purchased. The Commission establishes minimum milk prices, monthly, for milk sold in gallons (the price also applies to quarts through 20-quart containers). The price per gallon established by the Commission is based on the Market Administrator's price announcements; however, the Commission has the authority to add special premiums to the price based on market conditions in southern New England. Maine sets prices based upon studies that determine the costs of production, processing and retailing, and builds in a reasonable rate of return for each sector.

In 2005 the Maine Milk Commission was granted additional authority to collect a milk handling fee when the price received by dairy farmers for their milk falls below a certain minimum "basic price". The basic price being the class 1 price received by Maine dairy farmers.

The Maine per gallon milk handling fee is calculated as follows:

- If the basic price is \$18.50 per hundredweight and above, the rate of the milk handling fee is 0¢
- If the basic price is \$18.00 to \$18.49 per hundredweight, the rate of the milk handling fee is 1¢
- If the basic price is \$17.50 to \$17.99 per hundredweight, the rate of the milk handling fee is 2¢
- If the basic price is \$17.00 to \$17.49 per hundredweight, the rate of the milk handling fee is 4¢
- If the basic price is \$16.50 to \$16.99 per hundredweight, the rate of the milk handling fee is 8¢
- If the basic price is \$16.00 to \$16.49 per hundredweight, the rate of the milk handling fee is 10¢
- If the basic price is below \$16.00 per hundredweight, the rate of the milk handling fee is 12¢

For any container other than a gallon, the fee is computed on a gallon-equivalent basis. The Milk Handler Fee collected from milk handlers is deposited into the Maine's general fund. When the handling fee is active the Maine Milk Commission can adjust the wholesale and retail price of milk to reflect the additional milk handling fee.

Separate but related legislation to the Milk Handler Fee is the Tier Pay Dairy Relief Plan which provides for direct payments to dairy farmers from Maine's general fund based upon a formula that considers the costs of production, annual production and the price farmers are receiving including any direct payments from the Federal government including MILC payments. The Maine Tier Pay Dairy Relief Plan authorizes Maine Milk Commission to establish a cost of production or "target price" based upon three levels of dairy farmer production and a "base price" of milk based solely on the Boston Blend Price plus MILC payments. The Maine Milk Commission is authorized to make direct payments to dairy farmers when the base price is below the target price. The Maine Milk Commission distributes to each milk producer in Maine an amount of money equal to the previous month's production in hundredweight multiplied by the difference between the applicable target price and the base price in the previous month. Also when MILC is making payments to dairy farmers, the administrator of the Maine Milk Commission distributes an amount per hundredweight equal to the federal MILC payment for that month, for production in excess of the federal limit up to a maximum 5 million pounds, effectively doubling the MILC payment cap of 2.4 million pounds.

Maine is in a unique position figuratively and in reality. Maine is somewhat isolated by their location and enjoys the ability to better control what is happening within their borders. To avoid interstate commerce law violations, Maine has elected to provide direct payments to producers from their general fund.

Pennsylvania

The Pennsylvania Milk Marketing Board's mission statement is as follows:

"To ensure that Pennsylvania's dairy industry remains vital, the Milk Marketing Board provides a regulatory environment that facilitates a safe, adequate supply of wholesome milk by providing security for its dairy farmers and milk dealers; while providing an adequate supply of dairy products for consumers."

The Pennsylvania Milk Marketing Board (PMMB) sets producer prices, wholesale and retail milk prices. Wholesale and retail prices are set for various regions throughout the state and are based on cost. The Pennsylvania milk marketing law allows farmers and milk dealers a reasonable profit while ensuring Pennsylvania consumers adequate supplies of milk at reasonable prices. The PMMB accomplishes this by conducting studies to determine the costs of production for the various sectors of the milk industry then it establishes minimum prices to be paid Pennsylvania farmers for 100 pounds of milk (11.6 gallons), and minimum wholesale prices and minimum retail prices. Prices are based upon evidence presented by interested parties during public hearings. All factors affecting the production, processing, packaging, delivery, and in-store handling costs of milk are considered. The PMMB assists dairy farmers by establishing over-order premiums to be paid to Pennsylvania dairy farmers for milk produced and sold in Pennsylvania.

The PMMB is administered by a three-member board. Each member is appointed by the Governor with the advice and consent of a majority of the Pennsylvania senate. Funding for the Milk Marketing Board is derived from license fees and fines. The PMMB employs legal counsel, information technology staff, clerical staff and field staff which are responsible for financial audits, wholesale audits, monthly utilization review, and other activities. Hearings to set minimum prices are held on an annual basis for each of their milk marketing areas.

According to the PMMB website "The Board's regulation of minimum producer, wholesale, and retail prices results in Pennsylvania dairy farmers receiving a much higher percentage of the retail price than dairy farmers in other states."

Pennsylvania is ranked as the 4th highest state in milk production and as such exports a significant amount of milk which is not subject to these milk pricing regulations. Because Pennsylvania is a net exporter of milk and has sufficient in state processing capacity to meet all of their needs they have been able to regulate in state prices without running afoul of interstate commerce law.

New York

The New York Department of Agriculture and Markets enforces a milk price gouging law.

The law defines unconscionably excessive prices as a retail milk price more than 200 percent above the farm class 1 price of milk price plus transportation and in-store handling costs.

If stores are charging more than 200 percent plus costs, stores are then asked to either justify their high prices or lower them. If they do neither, they are referred to the State Attorney General for prosecution.

Stores can justify higher prices by providing information that demonstrates the store's costs justify the milk price. Convenience stores typically have higher costs and are rarely found to be in violation of the price gouging law.

The New York milk price gouging law does not and was not intended to benefit dairy farmers and it has strong opposition from retailers and processors.

Regionally

Long term, the states of Vermont, New York and Pennsylvania are exploring ways to implement a system to provide premiums to their producers. It is an accepted fact that a state has the authority (provided they have the legislation) to regulate prices of milk produced and sold within their state. It is thought that if this came to fruition, consuming states such as Connecticut could also benefit if they had similar legislation. Within the states regulating their milk prices, imported milk and milk produced in state, would have a similar price, there would be no incentive to import milk from a region with lower producer prices. The department is following this development closely.

Conclusion and Recommendations

The conditions noted in the 1990 Legislative Blue Ribbon task Force report are still plaguing the dairy industry in Connecticut. The milk price farmers are receiving today (\$13.43/cwt) is significantly less than the price received in 1989 (\$14.20/cwt) and considerably less than the cost of production (\$15.40/cwt). The number of commercial dairy farms has dwindled from 367 in 1990 to 169 today. The only mitigating factor on the loss of dairy farms is that the remaining farms have gotten larger to take advantage of the economies of scale. Without a doubt, same land formally used for dairy farming is used for other agricultural purposes but many acres are gobbled up each year, converted to development and irrevocably lost.

The legislature and administration have consistently supported efforts to preserve farmland. This effort is considered important to preserving the character of Connecticut. Unfortunately purchasing development rights and preserving the land does little to improve the commercial viability of a farm. Preserving farmland is probably better served by keeping farms economically viable.

Northeast and particularly Connecticut dairy farmers face an uncertain future at best. Many western states are encouraging the expansion of milk production with subsidies and grants, to producers and processors. This will only exacerbate the situation by dumping cheap milk into manufacturing markets depressing milk prices. The board concluded that any relief from the federal government will be weak to non-existent and the burden will have to be carried by the state. When considering possible solutions to producer milk pricing, the Milk regulation Board was cognizant of putting undue burdens on taxpayers and consumers. A regional approach would be the most desirable and the board examined how to achieve this given the fact that congress elected to allow the Northeast Dairy Compact to expire.

The board explored several broad based options that could provide a safety net for Connecticut Dairy Farmers and improve the overall health of the Connecticut dairy industry. Funding for options 1 through 3 could be accomplished using a system similar to Maine's. A milk handler fee of 1¢ per gallon would raise approximately \$700,000 dollars per year. A 5.5¢ per gallon milk handler fee would generate enough dollars to provide a \$1.00 per cwt (hundredweight) premium or payment to Connecticut producers.

Option 1:

Piggy back on, and enhance the Federal MILC program by making up the difference between the 2002 payment level and 2006 payment level (45% v 34%). Since nearly half of the producers in Connecticut exceed MILC's 2.4 million pound production level cap, the board recommends that this program extend state funded MILC payments to an additional 3.6 million pounds of milk. This would effectively raise the Federal 2.4 million pound cap to 6 million pounds of milk a year per farm. Only those farms exceeding approximately 250 milking animals would be limited by this 6 million pound cap. This would effect approximately 20 dairy farms. It is estimated that 500,000 dollars would be needed to fund a state MILC payment for 2006. If MILC is dropped by the federal government in the future, funding a state program similar to MILC would cost approximately 2 million dollars a year depending on the price of class 1 milk.

Option 2:

Using the Maine model, establish a "Milk Commission" with the authority to establish minimum producer, wholesale and retail milk prices. This milk commission should be separate from the Milk Regulation Board and consumers should constitute a majority of the milk commission members. The milk commission should be able to draw on experts from the University of Connecticut and the industry. Any legislation must be mindful of interstate trade issues and would have a better chance of being successful if similar legislation was in place in Massachusetts, Vermont, and New York to avoid encouraging milk from moving into the northeast from outside the region. The challenges are finding a system that is revenue neutral as far as taxpayers are concerned, a mechanism to get the money to dairy farmers and finding a way to improve the dairy farmer's net take of the retail food dollar.

Option 3:

Similar to option 1, provide direct payments to dairy farmers based upon production, farm size or other factors to keep dairy farms viable. 1 million dollars would provide approximately 25 cents per hundredweight in aid to offset increased costs and lower prices. This is a "quick and dirty" short term solution that could be implemented until a permanent solution can be crafted.

Option 4:

Establish a lend/lease program with seed money the Department of Agriculture can use to purchase equipment which then could be leased at cost, to startup dairies or processors, possibly creating or expanding niche market producers and processors. This fund could also be expanded to include upgrading technology and capacity of existing processing and producing facilities, or subsidizing producers who wish to transition to organic production or on farm processing. This option would not provide industry wide relief. It was felt that this option would complement other industry wide support.

During the summer and fall of 2006 the Milk Regulation Board will explore the various options for a State sponsored safety net for dairy farmers in more detail. The Milk Regulation Board will provide the Commissioner and the legislature with recommended language for a permanent dairy safety net for the 2007 legislative session. The board will continue to support national initiatives. The Milk Regulation Board also encourages the current administration and legislature to continue their support for a national or regional solution to dairy pricing through our State delegation to Congress and through cooperation and collaboration with the New England States, New York, New Jersey and Pennsylvania.

Respectfully submitted,



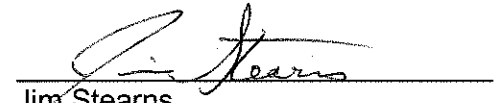
F. Philip Prelli
Commissioner of Agriculture
Chairman, Milk Regulation Board



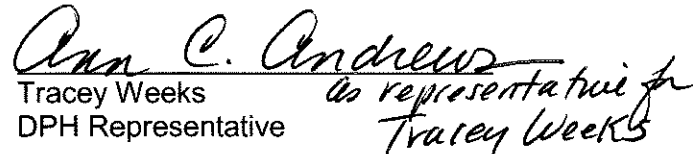
Robert Jacquier
Laurel Brook Farm



Neil Marcus
Marcus Dairy

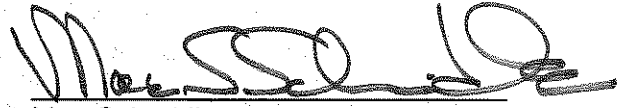


Jim Stearns
Mountain Dairy



as representative for
Tracey Weeks

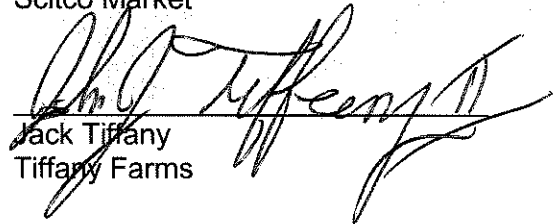
Tracey Weeks
DPH Representative



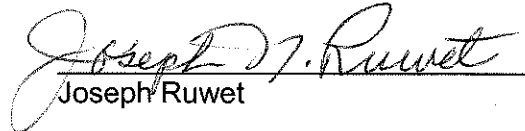
Mae Schindle



Robert D'Alessandro
Scitco Market



Jack Tiffany
Tiffany Farms



Joseph Ruwet

